



TechWatch

News at a glance

Issue 121 • November 2012

TechWatch updates you on technical developments in financial reporting, auditing, ethics, regulation and business. The Institute welcomes your comments, emailed to < commentletters@hkicpa.org.hk >. Click [here](#) for past issues.

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Financial Reporting, Auditing and Ethics

New!

1. New Seminars and Forums in November and December

The Institute will run a series of technical update evenings ("TUE"), seminars and forums for accounting, auditing and ethics in November and December 2012, as follows:

- [Annual Accounting Update 2012](#)
- [TUE - New standard on consolidation, joint ventures and disclosure – HKFRS 10, 11 and 12](#)
- [TUE - Guardian Role of Professionals in Upholding Ethical Governance](#)
- [2012 SMP Symposium](#)

Information on each course, including registration details, can be found by clicking on the above event titles.

Financial Reporting

2. HKICPA Financial Reporting Standards Committee

The [FRSC minutes](#) of the meeting on 7 August 2012 cover the following items:

- IFRS Regional Policy Forum 2013 in Hong Kong
- Outreach activities of IASB's post-implementation review of IFRS 8
- Asian-Oceanian Standard-Setters Group IFRS for SMEs Working Group
- Draft agenda of International Forum of Accounting Standard Setters meeting in October 2012
- IASB and International Valuation Standards Council ("IVSC") consultation documents

- Joint Financial Reporting Forum - HKFRS 10 *Consolidated Financial Statements* for asset managers

3. Institute Comments on IFRS Foundation Constitution Document

The Institute made a [submission](#) to the IFRS Foundation on its *Constitution – Drafting Review: Separating the roles of the IASB Chair and the Executive Director*.

The proposed amendments to the Constitution, as set out in the consultative document, were largely in line with those the Institute had supported in a previous comment letter dated 8 April 2011 on the IFRS Foundation Monitoring Board's "Consultative Report on the Review of the IFRS Foundation's Governance". In that comment letter, the Institute supported separating the role of IASB Chair from the "CEO" (or Executive Director) of the IFRS Foundation where the IASB Chair should lead the independent standard-setting process and the Executive Director managing all other aspects, including administrative affairs, of the IFRS Foundation.

The Institute understood that the roles have already been separated in the first quarter of 2012 and the consultative document simply proposed to revise the Foundation's Constitution to reflect the reality of such change.

The Institute considered the proposed separation of roles would facilitate the work of the IASB Chair in international standard-setting but recognized that both roles will have to work closely together to ensure the objectives of the IASB and the Trustees are fully met.

Audit & Assurance

4. HKICPA Auditing and Assurance Standards Committee

The [AASC minutes](#) of the meeting on 17 July 2012 cover the following items:

- AASC Work Plan 2012 – Status Report
- ISAE 3410 "Assurance Engagements on Greenhouse Gas Statements"

- Legislative Council Election Financial Assistance Scheme – Notes for Candidate and Independent Auditor of Candidate of Legislative Council Elections (July 2012)
- Annual Auditing Update Conference 2012
- Revised Comparison Table between Hong Kong and International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements as at 15 July 2012
- IAASB's Invitation to Comment: Improving the Auditor's Report
- IVSC's Exposure Draft of a Practical Guide on "The Role of the Professional Valuer in the Audit Process"
- Reply Letter to SFC on HKSAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"
- Enquiry on PN 840 "The Audit of Solicitors' Accounts Under The Solicitors' Accounts Rules and The Accountant's Report Rules"
- Update on Section 408 (formerly Clause 399) of the Companies Ordinance – Offences relating to contents of auditor's report

5. Institute Comments on Consultation Documents

- (i) IAASB's Invitation to Comment: Improving the Auditor's Report

The Institute made a submission to the IAASB on its Invitation to Comment ("ITC"): *Improving the Auditor's Report* as part of the IAASB's continuing efforts to clarify the role of auditors and stakeholders expectations.

In principle, the Institute was supportive of the proposed improvements to the auditor's report to provide more information to stakeholders to meet their needs. However, the Institute had concerns as to the extent of information provided under the proposed Auditor Commentary. The Institute did not

believe that the Auditor Commentary would address the "information gap" without giving rise to implications for auditor liability. The Institute was also of the view that audit quality is paramount and that any proposed changes to the form of auditor reporting should only be implemented if they do not have a negative effect on audit quality.

In proposing changes to the auditor's report, the Institute believed it is important for the IAASB to promote an understanding of the objective of performing an audit of financial statements and who are the intended users of auditors' reports. The Institute was concerned that some of the changes proposed in the ITC would extend the auditor's reporting responsibility in addition to reporting on whether the financial statements give a true and fair view.

- (ii) IVSC ED of a Practical Guide on *The Role of the Professional Valuer in the Audit Process*

The Institute made a **submission** to the IVSC on its ED of a Practical Guide ("Guide") on *The Role of the Professional Valuer in the Audit Process*. In principle, the Institute supported the proposed Guide which aims to explain the role of the professional valuer in the audit process.

The Institute considered that the distinction between the roles in acting as an auditor's expert, and acting for an entity, in providing valuations that will be included in financial statements that will be subject to audit, is not clearly explained.

As currently drafted, the focus of the guidance appeared to be on the role of valuers acting in the capacity of an auditor's expert, but guidance was also provided on being management's expert. There were further distinctions about whether the professional valuer is an internal or external expert. The Institute considered that these differences are important for a number of matters considered in the Guide, for example, the ethical and independence requirements and scope of work.

The Institute recommended that the "Scope of Work" section be expanded to include common practices not only with respect to the situation of a valuer undertaking a limited review of the reporting entity's valuation, but whenever the professional valuer is involved in the audit process.

International Meetings

6. International Accounting Standards Board

The IASB met on 15-19 October 2012, and discussed the following topics:

- Insurance Contracts
- Accounting for Macro Hedging
- Classification and Measurement
- Financial Instruments: Impairment
- Revenue Recognition
- IFRIC Update
- Due process papers
- IAS 8 Effective dates and transition methods

Click to view the IASB Update on the meeting on [15-19 October](#). The IASB next meets in November 2012.

7. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in November 2012. Click [here](#) for details.

8. International Auditing and Assurance Standards Board

The IAASB next meets in December 2012. Click [here](#) for details and previous meeting summary.

9. International Ethics Standards Board for Accountants

The IESBA next meets in December 2012. Click [here](#) for details and previous meeting summary.

Useful Resources

10. Publications

The following reference materials have been published recently:

- (i) Insights on next wave of IFRS changes:
 - [IFRS Outlook](#) by Ernst & Young
- (ii) Effective dates of IFRS:
 - [Reminder](#) by KPMG
- (iii) Updated IASB work plan on IFRSs:
 - [Work plan](#) by IASB
- (iv) IFRS changes impacting the banking industry:
 - [Update](#) by Ernst & Young
- (v) Banking survey 2012:
 - [Hong Kong survey](#) by KPMG
 - [China survey](#) by KPMG
- (vi) Concept of prudence:
 - [Speech](#) by IASB Chairman

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

11. IFAC PAIBC Publication on Integrating Governance for Sustainable Success

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") has issued a report, [Integrating Governance for Sustainable Success](#), which analyzes how PAIBs can support their organizations and increase performance by integrating governance into the key drivers of sustainable organizational success. Using case studies from around the world, the report illustrates that good governance is about more than the protection of stakeholders' interests or compliance with regulatory requirements.

Corporate Finance

12. Institute Submits Views on Listing Rule Changes

As reported in [TechWatch no.118](#) (item 19), Hong Kong Exchanges and Clearing ("HKEx") [consulted](#) the market on listing rule changes to complement the introduction of a statutory obligation to disclose inside information.

The Institute supports the aims of the Stock Exchange to review the listing rules relating to price sensitive information ("PSI") disclosure in the light of the impending implementation of the statutory regime for disclosure of inside information, under the Securities and Futures (Amendment) Ordinance 2012, and to provide procedures in the listing rules to facilitate implementation of the statutory regime, where such procedures are not provided for in the law. It also agrees on the need to ensure that no significant regulatory gaps emerge after removing the rules relating to PSI.

The Institute, however, has strong reservations about certain proposals, which could result in regulatory disclosure regime that may overlap

with and duplicate the statutory disclosure regime. It is also wary of potential inconsistencies between the proposed amendments to the listing rules and procedures envisaged in the Securities and Futures Commission ("SFC")'s guidelines on statutory inside information disclosure, or the introduction of procedures relating to statutory disclosures in the listing rules which may increase the regulatory burden on listed companies unduly. These are further explained in the Institute's [submission](#).

13. SFC's Annual Review of Stock Exchange's Performance

The SFC has published a [report](#) which summarizes key findings and recommendations of its annual review of the Stock Exchange of Hong Kong ("SEHK")'s performance in its regulation of listing matters during 2011.

The SFC is of the view that the operational procedures and decision-making processes reviewed were appropriate to enable SEHK to discharge its statutory obligations to maintain an orderly, informed and fair market during the review period. It has also identified certain areas for SEHK to continue to enhance its performance.

Taxation

14. 2013 Annual Meeting with Inland Revenue Department – Call for Agenda

The next regular annual meeting between the Institute and Inland Revenue Department ("IRD") will be held in early 2013 to discuss matters of common interest or concern in relation to tax practice and procedure.

If you wish to suggest items for the Institute to raise at the meeting, please use [this form](#) to provide a brief and clear explanation of the issue, and return the form to the Institute via e-mail <elena@hkicpa.org.hk>, by **22 November 2012**.

The annual meeting focuses on matters of general concern, rather than discussing specific cases. You may also wish to look at the [minutes of the previous meetings](#) to confirm

that particular issues have not already been raised and responded to in recent annual meetings.

15. Inaugural Liaison Meeting with the SAT

The [minutes](#) of the inaugural liaison meeting between representatives of the Institute, including members of the Mainland Taxation Subcommittee, and the State Administration of Taxation ("SAT"), held in June summarize the discussion on various cross-border taxation issues.

16. 2012 IRD Annual Meeting Minutes

The [minutes](#) provide a detailed record of the discussion at the 2012 annual meeting between the IRD and the Institute.

17. New and Amended Measures to Curb Property Speculation

The Buyer's Stamp Duty ("BSD") and the amended Special Stamp Duty ("SSD") on residential properties were [announced](#) on 26 October to curb speculation. While these would require legislative changes, the government proposed that they would apply to transactions from 27 October 2012 onwards. Click the following links for more information.

- [FAQs on the BSD and SSD](#)
- [Illustrative examples for the SSD](#)
- [A press release](#) on further measures to address overheated property market

18. LegCo Questions

- (i) Development of Hong Kong as a Fund Management Centre in Asia

In his reply to a LegCo [question](#) on additional measures to enhance the role of Hong Kong as a fund management centre, given the challenges from competitors, such as Singapore, the secretary for financial services and the treasury explained that the government is studying a proposal for a legislative framework to facilitate the establishment of investment funds vehicles.

As regards profits tax exemptions for onshore funds, he indicated that this would need to be examined carefully, with consideration given to factors such as Hong Kong's competitiveness as an asset management centre and implications for government revenue.

- (ii) IRO Section 39E

In her reply to a LegCo [question](#) regarding relaxing the current restriction in section 39E of the Inland Revenue Ordinance ("IRO"), the acting secretary for financial services and the treasury pointed out that there was no justifiable ground to amend the ordinance. If taxpayers were allowed to claim depreciation allowance on plant and machinery used outside Hong Kong, this would not only violate the territorial source and tax symmetry principles, but might also be perceived as encouraging transfer pricing, which would affect the taxing rights of Hong Kong and other tax jurisdictions, including the Mainland.

- (iii) Assistance to Facilitate the Development of Hong Kong Enterprises

In his reply to a LegCo [question](#) on the relaxation of section 39E of the IRO, and tax measures to support Hong Kong enterprises conducting innovation and scientific researches, the secretary for financial services and the treasury indicated that it was not justifiable to relax the ordinance. Please also refer to LegCo Question on IRO Section 39E above for further information. Regarding the expenditure on research and development ("R&D") incurred by taxpayers, in brief, section 16B of the IRO allowed a deduction on R&D, where the relevant trade, profession or business was performed in Hong Kong.

19. Government Releases Consultation Conclusions for Tax Laws Amendments for Islamic Bonds

[A press release](#) on the above subject states that, in order to capitalize on the expanding

Islamic financial market, a bill to amend the IRO and the Stamp Duty Ordinance for Islamic bonds is being finalized, and will be introduced to LegCo in early 2013. Also refer to the Institute's [submission](#) for further information.

20. Avoidance of Double Taxation Agreements

Agreements with Malaysia and Mexico for the avoidance of double taxation were [gazetted](#) on 19 October 2012.

[The agreement with Switzerland](#), signed last year, came into effect on 15 October 2012.

21. Electronic Copies of Duplicate Registration Certificates

The Business Registration Office of the IRD will enhance its electronic public search services starting from 12 November 2012. Where applications for duplicate business/branch registration certificates are submitted electronically through the GovHK website, successful applicants can obtain copies of the certificates, in pdf format, from the website on the next calendar day. Please click [here](#) for more details.

22. List of Qualifying Debt Instruments

The IRD has issued a [list of qualifying debt instruments](#) as at 30 September 2012.

Legislation & Other Initiatives

23. Phase Two Consultation on Subsidiary Legislation for Implementation of the New Companies Ordinance

As reported in [TechWatch no.120](#) (item 13), on 28 September, the government launched the [first phase](#) of a two-phase public consultation on the subsidiary legislation to be made for the implementation of the [new Companies Ordinance](#), with comments requested by 9 November 2012. The Institute is preparing a submission to the government.

On 2 November, the government launched the [second phase](#) of the consultation, with comments requested by **14 December 2012**,

covers the following five pieces of subsidiary legislation:

- (i) Companies (Trading Disclosures) Regulation;
- (ii) Companies (Revision of Financial Statements and Reports) Regulation;
- (iii) Companies (Disclosure of Information about Benefits of Directors) Regulation;
- (iv) Companies (Residential Addresses and Identification Numbers) Regulation; and
- (v) Companies (Unfair Prejudice Proceedings) Rules.

Under item (ii) it is proposed to impose criminal sanction on auditors, similar to the original clause 399 of the Companies Bill (now section 408 of the new Companies Ordinance) for knowingly or recklessly causing certain omissions from audit reports on revised financial statements.

Members who wish to reflect their views on the subsidiary legislation to the Institute, should email to < commentletters@hkicpa.org.hk >, under the heading "Consultation on Companies Ordinance subsidiary legislation", by **30 November 2012**.

24. Consultation on Legislative Proposals for an Independent Insurance Authority

The government has launched a [consultation](#) on the key legislative proposals for the establishment of an independent insurance authority. The consultation deadline is 26 January 2013. Members who wish to reflect views on the consultation to the Institute should email to < commentletters@hkicpa.org.hk >, under the heading "Consultation on Legislative Proposals for an Independent Insurance Authority" by **14 December 2012**.

25. Latest Notices on AML/CFT

Members may wish to note the following notices and publications in relation to combating money laundering/terrorist financing:

- Legal notices ("LN") that have been published in the Gazette:
 - **LN 139:** The United Nations Sanctions (Côte d'Ivoire) Regulation 2012
 - **LN 140:** The United Nations Sanctions (Democratic People's Republic of Korea) (Amendment) Regulation 2012
 - **LN 141:** The United Nations Sanctions (Guinea-Bissau) Regulation
 - **LN 142:** The United Nations Sanctions (Somalia) (Amendment) Regulation 2012
- Government notice **6560:** A list of relevant persons has been specified under the United Nations Sanctions (Côte d'Ivoire) Regulation 2012.
- Government notice **6561:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- Government notice **6562:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Somalia) Regulation.
- **Financial action task force (FATF) public statement:** Draws attention of its members (Hong Kong has been a member since 1990) on the risks of transactions involving Iran, Democratic People's Republic of Korea, Bolivia, Cuba, Ecuador, Ethiopia, Indonesia, Kenya, Myanmar, Nigeria, Pakistan, São Tomé and Príncipe, Sri Lanka, Syria, Tanzania, Thailand, Turkey, Vietnam, Yemen and Ghana.
- **Improving global AML/CFT compliance: on-going process:** Draws the attention of FATF members to jurisdictions with deficiencies that pose money laundering/terrorist financing risks in the international financial system.

- **FATF Follow-up report to the mutual evaluation report of Hong Kong, China:** In view of Hong Kong's progress in addressing the deficiencies in its 2008 mutual evaluation report, it is off the regular follow-up process and will report on improvements biennially.
- **US executive order 13224:** The list relating to "Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism".

For more AML-related circulars from the office of the commissioner of insurance, click [here](#).

For more background information on the current law in Hong Kong relating to anti-money laundering, see the Institute's [Anti-money Laundering Bulletin 1](#), "Requirements on anti-money laundering, anti-terrorist financing and related matters", and the [supplement](#) on suspicious transaction reporting.

Useful Resources

26. Library Resources

Featured titles and **new books** of high reference value for members are now available. In addition, members can [login](#) to the **e-Library** and access e-journals and e-books on a wide range of business subjects.

27. Other Publications

The following articles/publications on topical issues may be of interest to members:

- (i) HKEx has published:
 - a listing decision in relation to whether to grant a waiver to a listing applicant from strict compliance with the requirement to issue an interim report (**HKEx-LD38-2012**)
 - an update of a listing decision in relation to whether, if in the conduct of its business in the PRC, a listing

applicant was a party to a number of contract-based structures between or among itself, its PRC subsidiaries, the registered owners (i.e., PRC nationals and controlling shareholder of the listing applicant) and companies owned by registered owners, this would render the listing applicant unsuitable for listing due to legal issues associated with the contractual arrangements ([HKEx-LD43-3](#)) (updated in Nov 2011, Aug and Nov 2012)

- two guidance letters in relation to
 - pre-IPO investments ([HKEx-GL43-12](#))
 - pre-IPO investments in convertible instruments ([HKEx-GL44-12](#))
- **report** on IPO applications, delisting and suspensions (as at 31 October)

(ii) SFC has published:

- **Issue no. 22 of Takeovers Bulletin**, which explains chain principle offer price and clarifies that a "no comment" fax from the SFC on a draft announcement/document should not be taken as a confirmation of compliance with the Takeovers Codes or any other laws and regulations
- **Report on the Thematic Inspection of Selling Practices of Licensed Corporations**, which summarizes the inadequacies and deficiencies identified by the SFC in its thematic inspection of licensed corporations involved in the sale of investment products

(iii) The **Companies Registry Trading Fund Annual Report 2011-2012** issued on 24 October 2012

(iv) Articles on corporate governance by Deloitte:

- **CEO succession planning and talent considerations**

- **Auditor evaluation tool for audit committees**
- **Asia Pacific economic outlook - China, Indonesia, Japan, Philippines**